

Message Text

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AMEMBASSY BRUSSELS

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AMCONSUL IZMIR

AMEMBASSY NICOSIA

AMEMBASSY PARIS

CINCUSAFFE

USCINCEUR

USDOLANDSOUTHEAST IZMIR

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SUBJ: GOT INTRODUCES NEW MONETARY MEASURES

SUMMARY: TURKISH GOVERNMENT RECENTLY ANNOUNCED FIVE MONETARY MEASURES WHICH CONSTITUTE AN IMPORTANT SEGMENT OF ITS ECONOMIC STABILIZATION PROGRAM: INCREASED INTEREST-RATE CHARGES ON CERTAIN TYPES OF LOANS, INTEREST-RATE SUBSIDIES TO BORROWERS AND/OR LENDERS ON SELECTED CREDITS, HIGH INTEREST EARNINGS ON TIME

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DEPOSITS, INCREASED RESERVE REQUIREMENTS FOR COMMERCIAL BANKS WITH SELECTIVE EXCEPTIONS, AND INTEREST-RATE BONUS ON TIME DEPOSITS IN TURKEY OF TURKIS WORKING ABROAD. MEASURES ARE INTENDED TO ENCOURAGE ECONOMIC ACTIVITIES DESIGNATED BY THE GOVERNMENT AS HAVING PRIORITY, I.E., EXPORTS, AGRICULTURAL PRODUCTION, CERTAIN DEVELOPMENT INVESTMENT, AND SMALL BUSINESS AND

TO INCREASE INFLOW OF FOREIGN EXCHANGE WHILE AT SAME TIME DAMPING INFLATION BY WITHDRAWING MONEY FROM CIRCULATION. IN EMBASSY'S VIEW, THESE MEASURES ARE LIKELY TO HAVE ONLY MODERATE SUCCESS. END SUMMARY.

1. TURKISH GOVERNMENT RECENTLY PUBLISHED IN OFFICIAL GAZETTE SERIES OF MONETARY MEASURES THAT ARE INTEGRAL PART OF ITS ECONOMIC STABILIZATION PROGRAM.

2. INCREASED INTEREST-RATE CHARGES ON LOANS. EFFECTIVE APRIL 1, MAXIMUM ANNUAL INTEREST RATES ARE INCREASED FOR ALL LOANS EXCEPT THOSE ELIGIBLE FOR CERTAIN PREFERENTIAL INTEREST RATES AND THOSE EXCEEDING FIVE YEARS' TERM. INTEREST-RATE CEILINGS ON LOANS WILL BE INCREASED AS FOLLOWS (IN PERCENTAGES):

(READ IN THREE COLUMNS: TYPE OF LOAN: OLD: NEW;)

SHORT-TERM TO PRIORITY SECTORS 9-10.5 14

ALL OTHER SHORT-TERM LOANS 11.5 16

OTHER LOANS UP TO FIVE YEARS 14 16

LOANS OVER 5 YEARS NEGOTIABLE NEGOTIABLE

3. MAXIMUM INTEREST RATES ON LOANS TO AGRICULTURAL SECTOR BY STATE AGRICULTURAL BANK (ZIRAAAT BANK) AND ON LOANS TO SMALL BUSINESS BY STATE-OWNED PEOPLE'S BANK (HALK BANK) WILL REMAIN UNCHANGED AT 10.5 PERCENT, TO ENCOURAGE ACTIVITY IN THOSE SECTORS.

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4. INTEREST-RATE SUBSIDIES FROM SPECIAL CENTRAL BANK FUND. EFFECTIVE APRIL 1, TURKISH BANKS WILL BE REQUIRED TO DEPOSIT A PORTION OF ALL INTEREST COLLECTED ON LOANS INTO A SPECIAL FUND NEWLY ESTABLISHED AT CENTRAL BANK TO BENEFIT SELECTIVELY BOTH LENDERS AND BORROWERS IN SUCH A WAY AS TO CHANNEL CREDIT TO HIGH-PRIORITY SECTORS OF ECONOMY. ONE PERCENT OF THE INTEREST COLLECTED ON MEDIUM AND LONG-TERM CREDITS, TWO PERCENT OF THE INTEREST COLLECTED ON SHORT-TERM CREDITS CONSIDERED HIGH PRIORITY BY CENTRAL BANK, AND FOUR PERCENT OF THE INTEREST COLLECTED ON ALL OTHER CREDITS MUST BE DEPOSITED IN THIS FUND BY ALL COMMERCIAL BANKS AT END OF EVERY MONTH. CONSEQUENTLY, BANKS' INTEREST-RATE EARNINGS WILL BE ONLY 12 PERCENT ON SHORT-TERM LOANS, WHETHER OR PRIORITY SECTORS OR NOT, AND 15 PERCENT ON MEDIUM-TERM LOANS UNLESS THESE LOANS QUALIFY FOR INCREASED INTEREST PAYMENTS TO BANKS OF ONE TO THREE PERCENT FROM THE SAME SPECIAL FUND.(SEE BELOW.)

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5. INTEREST-RATE SUBSIDIES FROM THE FUND AT THE CENTRAL BANK ARE PAYABLE AS FOLLOWS. MOST MEDIUM AND LONG-TERM INVESTMENT LOANS GIVEN PRIORITY BE ANNUAL DEVELOPMENT PROGRAMS RECEIVE SUBSIDIES OF ONE PERCENT (PAYABLE TO BANKS) AND FIVE PERCENT (PAYABLE TO LAON RECIPIENTS). HOWEVER, ANY PRIORITY LOANS FOR AGRICULTURE OR THOSE WHICH HALK BANK PROVIDES FOR SMALL BUSINESS RECEIVE THREE PERCENT SUBSIDY (PAYABLE TO BANKS) IF MEDIUM OR LONG-TERM AND 1.5 PERCENT SUBSIDY (PAYABLE TO BANKS) IF SHORT-TERM. SHORT-TERM CREDITS UNCLASSIFIED

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FOR EXPORTS OF INDUSTRIAL PRODUCTS RECEIVE SUBSIDIES OF SIX PERCENT (PAYABLE TO LAON RECIPIENTS) AND ONE PERCENT (PAYABLE TO BANKS.) SHORT-TERM CREDITS FOR ALL

OTHER EXPORTS RECEIVE FOUR-PERCENT SUBSIDY (APABLY ONLY TO LAON RECIPIENTS). AS A RESULT OF THESE SUBSIDIES, THE PERCENTAGE INTEREST COSTS OF LOANS TO BORROWERS CAN BE COMPARED TO PERCENTAGE INTEREST RECEIPTS BY BANKS AS FOLLOWS. FIGURES IN BARACKETS INDICATE EFFECT OF ADDITIONAL SUBSIDIES ON COST TO BORROWER WHO USES LAON IN BACKWARD REGION OF THE COUNTRY.

(READ IN THREE COLUMNS: TYPE OF LAON; COST TO BORROWER; AND RECEIPT BY BANK)
PRIORITY MEDIUM AND LONG-TERM INVESTMENT LOANS; 11(7); 16

PRIORITY AGRICULTURAL AND SMALL BUSINESS LOANS, LONG AND MEDIUM-TERM; 10.5(6.5); 13.5

PRIORITY AGRICULTURAL AND SMALL BUSINESS LAONS, SHORT-TERM; 10.5(8.5); 12

SHORT-TERM CREDITS FOR EXPORTS OF INDUSTRIAL PRODUCTS; 8(6); 13

SHORT-TERM CREDITS FOR OTHER EXPORTS; 10(8); 12

6. INCREASED INTEREST EARNINGS FOR TIME DEPOSITS.
ALSO EFFECTIVE APRIL 1, ANNUAL INTEREST RATE CEILINGS FOR PRIVATE TIME DEPOSITS WILL BE RAISED TO STIMULATE INCREASED SAVINGS. SCHEDULE OF MAXIMUM INTEREST RATES FOR SAVINGS DEPOSITS IS AS FOLLOWS:
0-3 MONTHS OLD RATE 3 NEW RATE 3
3-6MONTHS OLD RATE 6 NEW RATE 6
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6-12MONTHS OLD RATE 6 NEW RATE 9
12-24 MONTHS OLD RATE 9 NEW RATE 12
24-36 MONTHS OLD RATE NEGOTIABLE NEW RATE 16
36-48 MONTHS NEGOTIABLE NEW RATE 20
OVER 48 MONTHS OLD RATE NEGOTIABLE NEW RATE NEGOTIABLE

SAVINGS DEPOSIT RATES ARE STRUCTURED NOT ONLY TO STIMULATE SAVINGS BUT ALSO TO ENCOURAGE SAVERS TO COMMIT THEIR FUNDS FOR LONGER TERMS THAN BEFORE. BEFORE THE RECENT CHANGE, THERE WERE NO SET RATES FOR DEPOSITS BEYOND 24 MONTHS; SET RATES ARE NOW FIXED UP TO 48 MONTHS.

7. INTEREST RATES FOR OFFICIAL DEPOSITS (IE, ALL DEPOSITS BY THE PUBLIC SECTOR) HAVE BEEN DECREASED FROM ONE PER-CENT TO ZERO PERCENT PER ANNUM. SIMILARLY, THE INTEREST RATE ON COMMERCIAL DEPOSITS HAS BEEN REDUCED FROM TWO TO ZERO PERCENT PER ANNUM. IN BOTH CASES, IT IS ASSUMED

THAT THESE DEPOSITS ARE NOT GREATLY SENSITIVE TO INTEREST-RATE LEVELS. NOTE: OFFICIAL DEPOSITS FROM SOCIAL INSURANCE AND PENSION FUNDS AND COMMERCIAL DEPOSITS FROM COOPERATIVES CONTINUE TO RECEIVE INTEREST RATES DESCRIBED ABOVE FOR PRIVATE TIME DEPOSITS.

8. INCREASED RESERVE REQUIREMENTS.

BANKS MUST DEPOSIT WITH CENTRAL BANK AMOUNTS EQUAL TO THIRTY PERCENT OF TIME DEPOSITS FOR LONGER THAN ONE YEAR AND 35 PERCENT OF THE SUM OF DEMAND DEPOSITS AND TIME DEPOSITS FOR PERIODS UP TO ONE YEAR. BOTH OF THESE RESERVE REQUIREMENTS ARE 5 PERCENT HIGHER THAN WERE PREVIOUSLY IN EFFECT.

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RESERVES WILL CONTINUE TO BE DECREASED 10 PERCENT IF BANKS USE THE DIFFERENCE TO PURCHASE GOVERNMENT BONDS. IN ADDITION, PREFERENTIAL RESERVE REQUIREMENT WAS ESTABLISHED

SO THAT BANKS NEED KEEP RESERVES OF ONLY 20 PERCENT OF DEPOSITS ALLOCATED FOR SMALL-BUSI-NESS AND SHORT-TERM AGRICULTURAL CREDITS. RESERVE REQUIREMENT WAS DECREASED TO 10 PERCENT OF DEPOSITS ALLOCATED FOR MEDIUM AND LONG-TERM INVESTMENT CREDITS TO SECTORS DESIGNATED IN ANNUAL DEVELOPMENT PROGRAMS AND INCENTIVE LAWS. RESERVE REQUIREMENTS WERE ENTIRELY ELIMINATED FOR DEPOSITS ALLOCATED FOR MEDIUM AND UNCLASSIFIED

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LONG-TERM CREDITS TO SECTORS IN BACKWARD REGIONS ELIGIBLE FOR INVESTMENT INCENTIVES.

9. PREVIOUSLY, ALL BANKS WERE SUBJECT TO THE SAME REQUIREMENT THAT THEY MAINTAIN VAULT CASH RESERVES EQUIVALENT TO 10 PERCENT OF THEIR DEPOSITS. EFFECTIVE FEBRUARY 28, BANKS WITH DEPOSITS EXCEEDING TL 5 BILLION (MAJORITY OF TURKISH BANKS) MUST MAINTAIN CASH RESERVES EQUIVALENT TO 15 PERCENT OF THEIR DEPOSITS. BANKS WITH DEPOSITS TO TL 2 BILLION TO TL 5 BILLION MUST NOW HOLD CASE RESERVES OF 12 PERCNET, AND BANKS WITH DEPOSITS UNDER TL 2 BILLION ARE STILL SUBJECT TO 10 PERCENT CASH RESERVE REQUIREMENT.

10. INTEREST-RATE BONUS ON TIME DEPOSITS OF TURKS WORKING ABROAD. EFFECITVE MARCH 1, REMITTANCES OF FOREIGN EXCHANGE BY TURKS WORKING ABOARD RECEVIE AN INTEREST RATE BONUS OF 4 PERCENT IF THEY ARE PLACED IN A TIME DEPOSIT IN TURKEY FOR UP TO THREE YEARS AND 5 PERCENT FOR MORE THAN THREE YEARS. THESE BONUSES WILL COME FROM NEW FUND AT CENTRAL BANK DESCRIBED IN PARA 4.

1. COMMENT. MONETARY MEASURES ARE CONSISTENT WITH BASIC PHILOSOPHY BY WHICH GOVERNMENT IS SHAPING ITS ECONOMIC STABILIZATION PROGRAM. INTENTION IS TO ACHIEVE CLOSER BALANCE BETWEEN SUPPLY AND DEMAND, NOT BY DRASTICALLY REDUCING DEMAND AND GENERATING UNEMPLOYMENT BUT BY INCREASING SUPPLY SELECTIVELY TO A LEVEL WHICH MORE NEARLY SATISFIES EXISTING DEMAND. IN THIS CONNECTION, HEAD OF STATE PLANNING ORGANIZATION RECENTLY COMMENTED TO EMBOFFS THAT AIM OF GOVERNMENT IS TO RAISE PRODUCTION TO FULL CAPACITY FROM PRESENT LEVEL OF ABOUT 50 PERCENT PRIMARILY THROUGH DRAW-DOWN UNCLASSIFIED

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OF INVENTORIES THAT WERE BUILT UP IN ANTICIPATION OF DEVALUATION AND IN RESPONSE TO INFLATION. HOWEVER,

MAJOR REASON THAT TURKISH INDUSTRY IS CURRENTLY OPERATING AT ABOUT HALF CAPACITY IS ITS HEAVY DEPENDENCE ON IMPORTED INPUTS AT A TIME OF ACUTE FOREIGN-EXCHANGE SHORTAGE. THESE MONETARY MEASURES WILL CONTRIBUTE ONLY INDIRECTLY TOWARD ALLEVIATING THE FOREIGN-EXCHANGE CRISIS.

12. EXTENT TO WHICH MEASURES WILL SUCCEED IN DIRECTING CREDITS TO PRIORITY AREAS AND LENGTHENING MATURITIES IS AFFECTED BY THE FACT THAT COMMERCIAL BANKS IN TURKEY NORMALLY HOLD EQUITY POSITIONS IN VARIETY OF PRIVATE FIRMS. BANKS' LENDING DECISIONS WILL BE INFLUENCED BY THIS FACT AS WELL AS BY INTEREST RATES AND BY DIFFERENTIAL RESERVE REQUIREMENTS. HOWEVER, BANKS WILL NOW BE FACED WITH A PROFIT SQUEEZE. THEY WILL HAVE TO PAY HIGHER INTEREST ON MOST TIME DEPOSITS, BUT THEIR CONTRIBUTIONS TO SPECIAL CENTRAL BANK FUND AND THE GENERALLY HIGHER RESERVE REQUIREMENTS WILL KEEP THEIR INTEREST EARNINGS FROM RISING PROPORTIONATELY. THIS PROFIT SQUEEZE, THEORETICALLY, SHOULD BE STRONG PERSUASION TO BANKS TO CHANNEL CREDIT TO THOSE SECTORS WHERE THEY CAN OBTAIN SUBSIDIES FROM CENTRAL BANK FUND. BUT PRESSURES OF CLOSE RELATIONSHIPS WITH PRIVATE COMPANIES COULD BLUNT RESPONSE OF BANKS TO NEW MONETARY INCENTIVES.

13. IT IS DIFFICULT TO JUDGE HOW PAINFUL THIS PROFIT SQUEEZE WILL BE. BANKERS POINT OUT THAT NEW BANKING POLICIES PREVENT THEM FROM EARNING ANY PROFIT BY OFFSETTING LOANS OF MORE THAN TWO YEARS WITH DEPOSITS FOR CORRESPONDING PERIODS. CENTRAL BANK GOVERNOR, HOWEVER, CLAIMS TO HAVE SATISIFIED BANKERS BY AUTHORIZING 26 PERCENT INTEREST RATE ON LOANS FOR MORE THAN FOUR YEARS AND 22 PERCENT INTEREST RATE ON TIME DEPOSITS OF UNCLASSIFIED

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FOUR YEARS OR MORE. BUT COMMERCIAL BANKS HAVE OTHER WAYS OF SUPPLEMENTING THEIR EARNINGS FROM LOANS. THEY NORMALLY REQUIRE COMPENSATING BALANCES AND FRONT-END CHARGES AND FEES. THE TURKISH BANKERS' ASSOCIATION ESTIMATES THAT THESE ADDITIONAL CHARGES RAISE THE EFFECTIVE INTEREST RATE OF LOANS BY FOUR POINTS TO SIX PERCENTAGE POINTS. EXISTENCE OF THESE SUPPLEMENTARY EARNINGS MAY ALSO WORK TO REDUCE RESPONSIVENESS OF BANKS TO THE NEW CREDIT-CHANNELING INCENTIVES. THEY MAY PREFER TO MAINTAIN THEIR NORMAL BUSINESS RELATIONSHIPS RATHER THAN VENTURE INTO AREAS FAVORED BY THE GOVERNMENT.

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14. WHETHER OR NOT THE HIGHER INTEREST RATES WILL ATTRACT INCREASED SAVINGS DEPENDS ON GOVERNMENT'S SUCCESS IN CREATING EXPECTATION THAT INFLATION RATE (CURRENTLY ESTIMATED AT ABOUT 50 PERCENT) WILL DROP THIS YEAR. IF PEOPLE WITH DISPOSABLE INCOME DO NOT EXPECT SIGNIFICANT LOWERING OF INFLATION, MARGINAL INCREASE IN INTEREST RATES IS UNLIKELY TO CAPTURE MUCH IN THE WAY OF ADDITIONAL SAVINGS.

15. MONETARY MEASURES SHOULD HAVE SOME DEFLATIONARY
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IMPACT BUT THE HEAVY GUNS FOR TREATING TURKISH INFLATION LIE OUTSIDE THE MONETARY AREA. MAIN CAUSES

OF TURKISH INFLATION HAVE BEEN HIGH WAGE SETTLEMENTS, AGRICULTURAL SUBSIDIES AND CENTRAL BANK FINANCING OF DEFICITS OF INEFFICIENT STATE ENTERPRISES. GOVERNMENT MOVED LAST SEPTEMBER TO RAISE PRICES OF GOODS AND SERVICES OF STATE ECONOMIC ENTERPRISES (SEE'S) AS A MEANS OF CUTTING THEIR LOSSES. ADDITIONAL SEE PRICE INCREASES ARE BEING ANNOUNCED IN PIECEMEAL FASHION THIS MONTH. ECEVIT GOVERNMENT IS PROUD THAT IT HELD DOWN INCREASE IN TOBACCO SUBSIDY LAST MONTH. REAL TESTS OF ITS ABILITY AND WILL TO CURB INFLATION LIE IN ITS RESISTANCE TO DEMANDS FOR INCREASED AGRICULTURAL SUBSIDIES THIS YEAR, IN ITS LEADERSHIP IN WINNING ACCEPTANCE FOR SOME FORM OF INCOMES POLICY, AND IN ITS INSISTENCE ON EFFICIENT MANAGEMENT OF PUBLIC FIRMS.

16. MEASURES ARE AN ATTEMPT TO FINE-TUNE TURKISH MONETARY POLICY WITHOUT REGARD TO FACT THAT REAL INTEREST RATES WILL BE NEGATIVE IN 1978. TURKISH GOVERNMENT IS COUNTING ON THE WILLINGNESS OF LENDERS, BORROWERS, AND SAVERS TO IGNORE THIS FACT.

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